



# MAJOR ELECTRICITY USERS' GROUP

21 February 2007

Mr Dan Twigg  
System Operator Risk & Performance Manager  
By email to [dan.twigg@transpower.co.nz](mailto:dan.twigg@transpower.co.nz)

Dear Dan

## **Initial views on the Policy Statement Review for the 2007/08 period**

1. The Major Electricity Users' Group (MEUG) appreciates this opportunity to input to the System Operator (SO) at this initial stage of the Policy Statement Review process.
2. Energy intensive users continue to be concerned at the high cost of ancillary services, in particular frequency keeping costs (and the frequency keeper selection process), the on going risks of high prices arising from the introduction of security constraints (including spring washer effects) and the inability of the SO to take into account the impact of its activities on market prices. This last issue was raised by a number of parties during the 2005/06 Policy Statement Review process and the SO submitted that it was inappropriate to consider such a substantive change during the consultation phase. It would therefore appear that if there is to be a debate about the market impacts of security constraints, customer advice notices, common and local quality and operation to n or n-1, this should take place before the draft Policy Statement is finalised. Concern has also been expressed that the automation of security constraints via the MSP may exacerbate the potential adverse market impacts.
3. The SO letter of 20<sup>th</sup> May 2005 (to the Electricity Commission) observed that as currently written the Part C rules place no obligation on the SO to take into account price outcomes. Furthermore that any moves to make the Policy Statement include an assessment of market price outcomes would, in the view of the SO, be inconsistent with the intent and purpose of the industry rules exemplified in Part C.
4. MEUG believes it is timely for the industry to reopen this issue and to consider how we can collectively achieve downward pressure on prices. An important aspect of this review will be the interaction between security and price and the SO is a critical component of that process. In canvassing what issues need to be incorporated into the review you are commencing to undertake we suggest that the interrelationship between prices and how the SO achieves its PPOs is a legitimate starting point.

Yours sincerely

Terrence Currie  
Chair